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The Co-operative Way: Victoria's Third Sector — A Summary

THIS article summarizes the major arguments and recommendations of the Ministerial Advisory Committee on Co-operation (MACC), primarily through direct quotes. Numbers in brackets refer to the pages in the report.

1. The Potential

Co-operatives provide the basis for an alternative to conventional social and economic institutions. (2)

Co-operatives are not just another form of small business or just another way of organizing finance. (61)

Co-operatives are different — working together rather than competing against each other. They are the means for participating in economic decisions — sharing more fairly the fruits of profit and power. (22)

Co-operatives provide the great bulk of the population with the opportunity and incentive to gain an understanding of the elementary facts of economic life. (27)

Co-operative development potential is identified as relevant to the Government's economic and social justice strategies.

1.1 Economic Strategy

Co-operatives could be an important part of Victoria's economic base. This will require the development of specific strategies for co-operative sectors in the context of the government's Economic Strategy. (66)

The government has pledged its continuing support for the establishment of worker co-operatives — subject to their capacity to achieve economic viability, their commitment to co-operative principles and industrial democracy and their meeting award wages and conditions. (66) Conversion or transformation of existing businesses to worker co-operatives offers desirable alternatives to self-employment or take-over by large corporations. (54)

There are historical links between trade unions and co-operatives. Worker co-operatives in particular have a common interest in maintaining award wages and conditions. (116-117)

One fifth of Australia's rural output is produced by Victoria. Co-operatives play an important part and could be a viable alternative to the agribusiness firms which are making a heavy impact by forcing farmers to accept less for their produce as these giant firms increasingly monopolize agricultural markets. (47)

1.2 Social Justice

The social justice statement specifically recognises the potential of co-operatives to empower individuals and groups and

to ensure that programs and services are more responsive and participatory. (68)

In recent years there has been increasing interest in the development of co-operatives for those who have physical and/or intellectual disabilities. (58)

The co-operative principles of open membership, democratic control and co-operative education provide a natural basis for the realization of equal opportunity. (95)

The dominance of co-operatives in the Victorian Aboriginal community relates both to past government regulation and their suitability for adaptation to fit within the traditional, non-hierarchical forms of Aboriginal society. (51)

Democratically-managed, parent run child-care centres ideally fall within the co-operative model. (50)

2. The Present

A brief examination of the co-operative movement in Victoria reveals a wide disparity across the various sectors in membership strength, asset backing, financial success and co-operative practice. (43)

The traditional rural base of the co-operative movement is strong but static. (62)

Few co-operative sectors have attempted to co-ordinate their activities by setting up associations. (44)

Victoria's co-operative movement is currently declining in numbers due to rationalization — although membership, assets and business done is increasing. (44)

Much of Victoria's co-operative movement can still be considered as being in a formative stage. (64)

Financial deregulation has led to a rationalization of credit co-operatives. (48)

The co-operative movement in Victoria is in need of revitalization. (62)

This revitalization hinges on government attitudes. (63)

The Victorian Government has played a critical role in developing food (52 and 122-123), worker (53 and 120-122) and housing (56-57 and 124-125) co-operatives. Generally, however, government legislation and policies inadvertently discriminate against co-operatives. (67)

2.1 Legislation.

The existing legislation framework has failed to establish a clear and distinct identity for the co-operative sector. It lacks sufficient expression and support for co-operative principles and is excessive in its specific requirements. (85) The Act does not cover all co-operatives. (85)

The Co-operation Act 1981 should be repealed in its entirety. (86)

2.2 Financing.

Co-operatives are notoriously under capitalized. (105) The majority of co-operatives in Victoria are small and community-based with a low asset backing. (43)

Probably the most contentious issue in co-operative development is finance and the role of capital. (105) The traditional strategy for capital formation tends to be based on the initial level of equity requirements from members or shareholders. (105) The extent of ownership in a business is normally regarded by financiers as a measure of the commitment of the owners. (105)

Equating equity to commitment assumes that money is a unique and dominant incentive for the establishment and development of co-operatives. There are different bases for motivation and, indeed, the rationale for co-operation is service rather than profit. (105)

Traditional financial institutions have shown little interest in the development of co-operatives. (107) Few credit co-operatives have shown interest in becoming the financing arm of the co-operative movement. (112)

2.3 Education.

Only one in four members of co-operatives took part in education and training programs of any kind in Victoria during 1984. There is a general unavailability of suitable trainers, courses and programs and a lack of co-operative education and training bodies. (100)

A survey of 50 food co-operatives around the state found that the majority needed training in management, organization and planning if they were to survive as businesses. (52)

The co-operative principle most widely ignored in Victoria concerns the need to educate co-operative members, their



staff and the public in the principles and practice of co-operation. (99)

3. Co-operative Practice.

A definition of co-operation and a rewriting of the principles of co-operation are prerequisites for co-operative development. The following definition should be included in the Act: A co-operative is a group of people who voluntarily come together on a basis of equality, self help and mutual aid, with the purpose of jointly promoting their socio-economic well-being in a democratic manner, while adhering to the six principles of co-operation incorporated within the Act. (91) Four of the principles have been rewritten to clarify their practice:

1. *Open membership.* This should specify the responsibilities of membership "as set out in the rules".
2. *Democratic control.* This should specify the "ongoing and participative" nature of democracy as "agreed by members and accountable to them".
3. *Limited interest on share capital.* This should emphasize capital as serving a "co-operative's activities" rather than "individual return".

4. *Co-operation between co-operatives.* This should emphasize "mutual support" which is "demonstrated on a practical level".

5. *Equitable distribution of surplus.* This should specify that "transactions are the member's dealings with the co-operative". (92)

Rules of co-operatives should substantially comply with these principles. (92) Between and within co-operative sectors there should be freedom of choice and practice. There is no single correct or incorrect co-operative practice, but simply a number of equally valid practices. (94) In practical terms, this means:

1. Maintaining one person one vote.
2. Specifying the rights of members.
3. Protecting the rights of minorities.
4. Diverse forms of management.
5. The removal of non-active members.
6. Education and training.
7. Protecting the reserves level.

3.1 Maintaining one person one vote.

The fundamental difference between a co-operative and other forms of organization should be a co-operative commitment to a democratic structure of

one vote per person, regardless of the size of a person's shareholding. (88)

Community housing co-operatives are being developed by the federal and Victorian governments. (57)

3.2 Specifying the rights of members.

Co-operatives should spell out the rights and responsibilities of their members in their rules eg the right to participation and information, a clear disputes-resolving procedure, detailing how membership controls officers (94), surplus and residual distribution (95), equal-opportunity policies and practices (95) and minimum and maximum shareholding. (111)

3.3 Protecting the rights of minorities.

Minorities in co-operatives may need to call on independent arbitration where there is an internal dispute. A minority could be as low as one. Internal resolution of disputes is, however, consistent with co-operative democracy and autonomy and the initial onus should be on the co-operative itself to resolve complaints. (94)

3.4 Diverse forms of management.

It is the prerogative of co-operatives to determine their management structure — board, committee or collective. (93) Co-operatives should be able to make their own arrangements as far as internal organization of the co-operative is concerned. (93)

3.5 The removal of non-active members.

Legislation needs to provide for the removal of non-active members of a co-operative to prevent control transferring to persons who are not directly involved in its operations. (97) This should be automatic in worker co-operatives and voluntary in others. (97)

3.6 Education and training.

Education and training is important for the success of co-operatives. (99)

3.7 Protecting the reserves level.

There is a need for co-operatives to build-up reserves to ensure they are not undercapitalized. (96 and 112) An increased or proportion of surplus should be allocated to reserves or a contingency fund. (112)

4. Appropriate development.

There needs to be a bottom-up approach to co-operative development. (71) Co-operative development must be appropriate — consistent with co-operative philosophy, principles and practices. This requires appropriate legislation, financing mechanisms and education and training. Co-operative specific training, business and financial assistance mechanisms are critical. (71)

The Small Business Development

Corporation should not be responsible for co-operative development nor seek to take on that role. (71)

Encouraging co-operative development through co-operative sector associations is the model best suited to meeting the diverse needs of Victoria's co-operative movement. The co-operative sectors vary in their interpretation and application of co-operative philosophy and principles. Their objectives, structures and activities are different enough to justify structures for co-operative development being based on these differences. (71)

Co-operative sector associations would represent, promote, co-ordinate and encourage co-operative development within their sectors. Development agencies proposed for co-operative sectors should be managed by sector associations. (80)

The government and co-operative relationship must be based on government support being consistent with its own priorities and programs, maintaining co-operative autonomy and democratic managements, co-operatives accepting responsibility and being accountable for government support and government support being consistent with co-operative principles and practice. (64)

Established co-operative sectors do not have a common interest with trade unions. (116) Worker co-operatives and trade unions, however, have common interests. (117) A working party should be established between worker co-operatives and the Victorian Trades Hall Council. Worker co-operatives will need to maintain and expand union membership and to protect and improve working conditions. (118)

The government should establish a Victorian Co-operatives Council and an Office of Co-operatives.

The Victorian Co-operatives Council would be an effective forum and focal point for co-operative development. (75) The Council would develop a long-term strategic perspective on co-operative development, and balance the interests of the various sectors to provide a broad movement overview. (81) The majority of members would be direct representatives from co-operative sector associations. (82)

The Office of Co-operatives would co-ordinate all government development of emerging and existing co-operatives. (83)

4.1 Appropriate legislation.

A new Co-operation Act should (a) promote co-operative philosophy, principles and practices (b) protect the interests of co-operative members and (c) protect the interests of the public. (87)

While legislation does not make co-operation and co-operators, it could define and protect co-operative philosophy, principles and practices

within it. There is a direct relationship between co-operative legislation and the structure and character of co-operatives. (86)

This new Act should be deregulatory, allowing for diversity in sector practice and substantial compliance with the six principles of co-operation included within the new Act. (86) Legislation should encourage self-management in the co-operative sectors. Self-management is not the absence of constraint and regulation and it does not override the interests of co-operative members and the public. (88)

Legislative provisions should ensure that organizations incorporated under the Act continue to adhere to co-operative principles and practices. (81)

4.2 Appropriate Financing.

In meeting their financing needs, co-operatives should be encouraged to be self-funding as far as possible by means of member equity, greater retention of capital and increasing reserves. (106)

Credit co-operatives should be encouraged to become finance brokers for the co-operative movement. (107) Government funding could be directed through credit co-operatives. (113)

Surplus and residual assets distribution should be determined in the rules of co-operatives. (95) No distribution of surplus to members should be allowed until an agreed minimum level of reserves has been accrued. (112) Co-operatives principally developed by government funding should not be permitted to make any surplus distribution to individual members. (96) In order to avoid asset stripping, bonus shares need to be issued in proportion to members' transactions with the co-operative. (95)

In the short term grant funding will be required to stimulate the development of co-operative sector associations. (65) and education and training — a Co-operative Education and Training Authority (\$100,000), co-operative sector association education committees (\$45,000 each) and curriculum development. (104)

Recurrent government expenditure may be necessary to maintain a properly functioning infrastructure for the co-operative movement. (69) Seeding grants need to be readily available through specified sector associations to help newly formed co-operatives. (70) Grants should be available to pre-co-operative groups so they can have access to resources and educational facilities and for research projects. (70)

Government grants will be a necessary component of financial packages for worker co-operatives. (70)

The expansion of the government guarantee scheme for co-operatives could prove one of the greatest boosts to their development on a wider basis. (110)

Provision of venture capital and

wholesale loans require special treatment — a wholesale financing facility for the co-operative movement. (114)

4.3 Appropriate education.

The importance of co-operative education and training in the development of a successful co-operative movement should be fully recognised and given high priority. (101)

Different types of co-operatives should receive co-operative education and training targeted to their individual needs. (102) Education and training should be available at a local and regional level. (101)

Each co-operative sector should establish an education and training committee. (103) These committees will control a Co-operative Education and Training Authority. (103)

5. Building on the present.

Existing government initiatives are acknowledged and the following transitional arrangements recommended:

5.1 Food Co-operatives.

The current level of funding in real terms should be maintained for the Victorian Food Co-operative Study Group. The VFCSG should be commissioned to develop guidelines and a budget for the funding of individual food co-operatives. (123) The proposed warehouse and development centre for food co-operatives should be funded from the Anti-Poverty budget. (124)

5.2 Worker Co-operatives.

Funding of worker co-operatives should be maintained at its current level of \$1.4 million. (122) A Worker Co-operative Development Agency should be Auspiced and transferred as soon as possible to the Worker Co-operative Association. (122)

5.3 Co-operative education and training.

The development of worker co-operative education and training by Preston TAFE should continue in conjunction with worker co-operatives over the next 12 months at the current level of \$100,000. (122)

5.4 Common equity rental co-operatives.

The Treasurer should extend government guarantees to cover loans raised by the Common Equity Housing Finance Ltd, and agree to the removal of land tax, gift duty and stamp duty on property purchased. (125)

In addition, the Victorian Co-operatives Council and the Office of Co-operatives should be established as soon as possible. (120)

•David Griffiths
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